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PBI - Q3 2015 Pitney Bowes Inc Earnings Call

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OVERVIEW:

Co. reported 3Q15 revenue of $870m and GAAP EPS of $0.44.

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PRESENTATION

Operator

Good morning, and welcome to the Pitney Bowes third-quarter 2015 results conference call.

(Operator Instructions)

Today's call is also being recorded. If you have any objections, please disconnect your lines at this time.

I would now like to introduce your speakers for today's conference call, Mr. Marc Lautenbach, President and Chief Executive Officer; Mr. Michael Monahan, Executive Vice President, Chief Operating Officer, and Chief Financial Officer; and Mr. Charles McBride, Vice President Investor Relations. Mr. McBride will now begin the call with the Safe Harbor overview.

Charles McBride - *Pitney Bowes Inc. - VP of IR*

Good morning. Included in this presentation are forward-looking statements about our expected future business and financial performance. Forward-looking statements involve risks and uncertainties that could cause actual results to be materially different from our projections.

More information about these risks and uncertainties can be found in our 2014 form 10K Annual Report and other reports filed with the SEC that are located on our website at www.pb.com and by clicking on Investor Relations. Please keep in mind that we do not undertake any obligation to update any forward-looking statements as a result of new information or developments.

Also, for non-GAAP measures used in this press release or discussed in this presentation, you can find reconciliations to the appropriate GAAP measures in the tables attached to our press release and also on our Investor Relations website. Additionally, we have provided slides that summarize most of the points we will discuss during the call. These slides can also be found on our Investor Relations website. Now, our President and Chief Executive Officer, Marc Lautenbach will start with a few opening remarks. Marc?

Marc Lautenbach - *Pitney Bowes Inc. - President & CEO*

Thank you, Charlie, and good morning, everyone. Thank you for joining us this morning. At our Analyst Day meeting in September, we reaffirmed our strategy we rolled out in 2013. We did this for a very simple reason. The strategy is working.

Over the last 30 months, our strategy, and importantly, our execution, has increased the market value of Pitney Bowes by nearly $2 billion while dramatically improving our balance sheet. We remain focused on the same basic three pillars of our strategy. It is in that context that I'll make my remarks about what we have accomplished in the last 90 days.

In terms of the stabilization of Mail, and what we refine to be the reinvention of Mail, we continue to make good progress in the third quarter. In North America, which as you know is the engine of our cash production, the rate of revenue climb continued to moderate to less than 2% on a constant currency basis. This is within the long-term range that we have pointed to, and more importantly, equipment sales, which are the harbinger of future revenue performance, increased in the third quarter. One quarter doesn't make a trend but this was an important turning point for us.

Likewise, our International Mailing business continued to recover from the disruption from the go-to-market change as we foreshadowed in our second-quarter recap and reiterated at Analyst Day. We expect this trend to continue.

Our Enterprise Business, Presort and Production Mail, operated within the long-term band that we laid out in 2013 and reiterated a couple of weeks ago. Worth noting, our Presort business continued to perform well and is delivering a very high level of client satisfaction.

Finally, consistent with our notion of reinventing our Mail business, we have several important product announcements leveraging our digital technologies into our install base. We've just scratched the surface of this important opportunity.

In terms of operational excellence, we continue to hit the ball. Gross and EBIT margins both increased and cash flow was solid. We will never be done with our operational excellence initiatives, but we are making good progress here. More to do but solid progress.

Also of import, in early October, we went live with our systems project in Canada. As Mike described at Analyst Day, this is much more than an ERP project. This is a total retool of our business processes, along with the accompanying technology to automate these processes.

Results are early, and we still have a lot of work to do, but the results in Canada have been very encouraging. We are already seeing productivity improvements after a couple weeks, and the problems have been less than what I have seen in other similar projects, and I've seen a lot of them. I will reiterate that we are early in our deployment, but so far so good. As we said before, this project is key to delivering a superior client experience and unlocking substantial shareholder value.

In terms of growth in our Digital Commerce businesses, we grew double digits at constant currency, and our integration of Borderfree and the realization of the planned synergies are on track. We're also working with some new clients that hold promise of real opportunity in the future. That said, our cross-border business continued to face headwinds, which had a negative effect on our revenue results.

Our Software business executed well, but we had a tough compare. In our shipping business, we did not execute as well as I would have liked. On balance, however, across the segment, our performance was reasonable, although we're definitely working to overcome some external issues around currencies.

In conclusion, as always, there were some positives and negatives about the quarter, and I consider our quarterly execution an important indicator. That being said, however, our progress against our strategic work list remains on track. I will now turn the call over to Mike.

Michael Monahan - *Pitney Bowes Inc. - EVP, COO & CFO*

Thank you, Marc, and good morning. As Marc discussed, we saw an improvement in several important business trends during the third quarter and expect these trends to further improve in the fourth quarter.

North American Mailing equipment sales grew 2%. International Mailing's revenue trend improved from prior quarters, and as a result total SMB revenue on a constant currency basis declined at its lowest rate in six quarters, a further indication of the stabilization of our Mailing businesses. Presort Services and Global Ecommerce both continued to deliver revenue growth. In each of our business segment groups, SMB, Enterprise, and Digital Commerce, had revenue performance that was within the long-term market growth rate ranges that I outlined at our Analyst Day.

Also as we discussed at Analyst Day and our last earnings call, we have launched several new products and services across our businesses that bring our technologies and solutions to broader parts of our client base. Additionally we've been working to expand our Presort operations, recently adding two new sites to our network.

During the quarter, we also continued to make significant progress against our long-term strategic objectives. To cite a few examples, our ERP Project Team has worked countless hours to deliver a successful go-live launch of our new ERP platform in Canada early in October. Likewise, our Global Ecommerce Management Team has been working diligently to integrate the Pitney Bowes and Borderfree businesses, while identifying and achieving cost synergies. In our Mailing business in France we transitioned to a new sales model, and in our Software business, we continued to offer new targeted solutions for Enterprise clients, including our new EngageOne video software solution.

Now, let me take you through our results for the quarter, and then I'll provide a little more detail around our outlook for the balance of the year. As with the first half of the year, currency, again, had a meaningful impact on the comparisons of our reported results for the or the quarter.

Additionally, as a reminder, revenue comparisons were adversely affected by the sale of Imagitas and the acquisition of Borderfree last quarter. While both of these businesses had similar revenue profiles on an annual basis, seasonally, Imagitas had its best revenue performance in the third quarter, and Borderfree has its best revenue performance in the fourth quarter.

During the quarter, currency translation adversely impacted our revenue comparisons by $34 million, or 4%, and our earnings per share by $0.02. Year to date, currency has reduced revenue by $105 million, or 4%, and earnings per share by $0.05. Beyond these translation effects, the strong US dollar has continued to impact the volume of US outbound cross-border purchases in our Ecommerce business.

Additionally the divested revenues related to the strategic actions we took in Europe last year unfavorably impacted our revenue comparisons by approximately $4 million this quarter. While this did not have a meaningful impact on our total revenue comparison, it did impact more meaningfully the individual segments, which I will discuss shortly. This is the last quarter to be affected by these year-over-year comparisons.

Before I review the results of the quarter in more detail, I want to remind you that the Company's third-quarter earnings-related documents, which include our press release, financial statements, and slides can be found on our Investor Relations website.

Now, turning to the income statement, revenue for the quarter was $870 million, which was a decline of 4% on a constant currency basis and 8% on a reported basis. On a constant currency basis, and adjusted for the divested revenues in Europe, revenue declined 3% in SMB Solutions and was flat in Enterprise Business Solutions. Revenue grew 10% in Digital Commerce Solutions. As I mentioned at the outset of my discussion, these growth rates are all in line with the long-term market growth rates I presented at Analyst Day and are an improvement from the second quarter.

On a reported basis, revenue declined 8% in SMB solutions and 3% in Enterprise Business Solutions. Reported revenue in Digital Commerce Solutions grew 6%. Gross margin this quarter was 58.8%, an improvement of 150 basis points from prior year, driven in part by growth in high-margin mail finishing equipment in North America SMB, production mail inserter sales globally, and the addition of Borderfree revenue in our Ecommerce business.

SG&A this quarter totaled $309 million, which was a reduction of $33 million from the prior year, despite the inclusion of about $4 million of amortization of intangibles expensed for Borderfree and higher spend related to our Canada ERP go-live preparation. SG&A as a percentage of revenue improved by 70 basis points, further evidence of the success of our continued focus on operational excellence.

Net interest expense, which includes financing interest, was $38 million, which was a decline of more than $4 million when compared to the prior year. Adjusted EBIT was $173 million, and adjusted EBIT margin was 19.8%, an improvement of 150 basis points over prior year, despite the adverse impact of currency, the loss of high-margin Imagitas income, and the Borderfree and ERP items I just noted. Adding back total depreciation and amortization for the quarter, adjusted EBITDA was $215 million.

The effective tax rate on adjusted earnings was 32.4%, compared to 16% in the prior year. As a reminder, prior year's tax rate included $16 million in tax benefits from the resolution of certain tax matters. Excluding these items, the 2014 effective tax rate would have been 28.3%.

Turning to earnings per share, adjusted EPS were $0.43. Prior-year adjusted earnings per diluted share were $0.51 and included $0.08 per share of tax benefits that I just referenced. When you exclude those tax benefits, last year's adjusted EPS were also $0.43.

GAAP EPS were $0.44 and included a $0.01-per-share net tax benefit primarily related to the previous divestiture of an investment and some additional acquisition and disposition-related transaction costs. Earnings per share this quarter were adversely impacted by a $0.02-per-share reduction related to currency translation. As expected, earnings per share were also impacted by the loss of three months of Imagitas earnings, which were estimated to be approximately $0.03 per share, and $0.01 per share of expense for the amortization of intangibles related to Borderfree. A reconciliation of our GAAP EPS to adjusted EPS can be found in our earnings press release and earnings slides.

Looking at free cash flow and the balance sheet. Free cash flow during the quarter was $131 million, and cash provided by operating activities was $150 million on a GAAP basis. When compared to the prior year, third-quarter free cash flow was higher primarily due to lower working capital requirements and lower capital expenditures from a reduced level of investment in ERP this quarter.

At the end of the quarter, we had $3 billion of total debt, which was about $245 million lower than the prior year, and we had $750 million of cash and short-term investments on the balance sheet. Included in total debt at the end of the quarter was $150 million in commercial paper outstanding. Average outstanding borrowings during the quarter were about $286 million lower than the prior year. The average interest rate this quarter was 5.22%, which was a slight reduction of 6 basis points from the prior year.

During the quarter we returned $38 million to our common shareholders in the form of dividends, repurchased 4.9 million shares for $100 million, and made $15 million in restructuring payments. Also during the quarter, our Board of Directors authorized an additional $100 million of share repurchase.

Turning to our business segment results. For SMB Solutions, in North American Mailing, revenue for the quarter was $353 million and EBIT was $159 million. Revenue declined just 1.6% on a constant currency basis and less than 3% on a reported basis, which was the lowest rate of decline in six quarters. Revenue benefited from 2% growth in equipment sales as productivity continues to improve.

Recurring revenue stream trends also continued to be in line with prior quarters. EBIT margin was 45.1%, an improvement of 120 basis points versus the prior year, due to the mix of business, organizational streamlining, and ongoing cost reduction initiatives.

In International Mailing, revenue for the quarter was $105 million and EBIT was $11 million. Revenue declined 9% on a constant currency basis and 21% on a reported basis. Revenue would have declined 7% excluding currency and the divested revenues I mentioned earlier. The rate of decline in revenue is stabilizing most of the major markets where the go-to-market resource shift has been completed.

We focused on transitioning the sales organization in France during the quarter, which is expected to improve productivity. EBIT margin was 10.3%, which was a decline of 190 basis points from prior year, due to lower mail finishing equipment sales, the impact of currency on some costs, and the temporary incremental costs of transitioning the sales organization in France.

Turning to the Enterprise Business Solutions group. In Production Mail, revenue for the quarter was $102 million, and EBIT was $12 million. Revenue declined 5% on a constant currency basis and 10% on a reported basis. Revenue would have declined 4% excluding currency and the divested revenues in Europe related to this segment.

Inserting equipment sales grew versus prior year; however, there were no production print installations during the quarter, which adversely impacted revenue. Revenue also declined partly due to lower support services revenue this quarter. EBIT margin was 12.2%, which was an improvement of 380 basis points versus the prior year, mostly due to the mix of high-margin inserting equipment sales as well as ongoing cost reduction initiatives.

In Presort Services, revenue for the quarter was $116 million, and EBIT was $26 million. Revenue grew 4% on both a constant currency and reported basis. Revenue benefited from higher volume of first class and standard mail processed versus the prior year. EBIT margin was 22.4%, which was an improvement of 270 basis points versus the prior year, due to revenue growth and ongoing operational productivity initiatives.

Turning to the Digital Commerce Solutions group. For the Software Services segment, revenue was $98 million, and EBIT was $15 million. Revenue declined 7% on a constant currency basis and 13% on a reported basis.

As I mentioned earlier, revenue comparisons were impacted by lower licensing revenue in the Americas when compared to the prior year, which included a large licensing deal. Excluding the impact of that deal, software results were positive and in line with expectations, as the business is acquiring new Enterprise clients through targeted industry and application-specific solutions. EBIT margin was 15%, a decline of 190 basis points from prior year, as a result of lower licensing revenue which carries a higher margin.

For the Global Ecommerce segment, revenue was $97 million and EBIT was a loss of $1 million. Revenue grew 36% on a constant currency basis and 34% on a reported basis. Results included a full quarter of revenue from Borderfree and the continued expansion of the eBay UK outbound cross-border service.

Outbound package shipments from the US continued to be pressured by the strong US dollar. EBIT margin was a negative 1%, which was relatively flat to prior year, despite incremental expenses, including the amortization of intangibles, as well as expense and investments related to the Borderfree acquisition. These incremental expenses offset benefits from initial integration synergies during the quarter.

The Other segment is comprised of the Imagitas Marketing Services business, which was sold in May of this year. That concludes my comments on our financial performance for the quarter. Now, I'd like to focus the discussion on guidance.

As I mentioned in my opening remarks, we expect the improving trends experienced in the third quarter to continue and further improve in the fourth quarter as a result of the actions we've taken to achieve our long-term strategic initiatives. We are reaffirming our adjusted EPS, GAAP EPS, and free cash flow guidance.

We are modifying our revenue guidance for the following reasons. First, the relatively strong US dollar continues to impact cross-border Ecommerce purchases through our US-based Ecommerce business. Second, we are still working through the SMB go-to-market transition in France. We substantially transitioned the sales organization by the end of the third quarter, but there's still more to do to achieve the productivity levels we are targeting.

And third, the uncertain global economic environment is impacting some capital investment decisions, which is impacting our Production Mail and Software businesses. Therefore, we now expect annual revenue to be in the range of flat to a decline of 2% when compared to 2014 on a constant currency basis. As I noted, we are reaffirming our adjusted EPS, GAAP EPS, and free cash flow guidance for the year as operational excellence initiatives are expected to drive further cost reductions and efficiencies in the business.

Adjusted EPS is still expected to be in the range of $1.75 to $1.90, and GAAP EPS is still expected to be in the range of $2.06 to $2.21 for the year. Free cash flow guidance remains unchanged and is expected to be in the range of $450 million to $525 million for the year. That concludes my remarks. Operator, can you please open the line for questions?

Charles McBride - *Pitney Bowes Inc. - VP of IR*

Operator?

QUESTIONS AND ANSWERS

Operator

We have a question from the line of Kartik Mehta from Northcoast Research.

Kartik Mehta - *Northcoast Research - Analyst*

Good morning, Marc and Mike. Marc, I wanted to ask a little bit about the Production Mail business and just your perspective on it, the performance of it. Is it competition, is it execution, or is it just a marketplace right now for that business?

Marc Lautenbach - *Pitney Bowes Inc. - President & CEO*

Thanks for the question. I think as always there's a dose of each one of the elements that you describe. If you start with end-user market, there's no doubt the end-user market opportunity is under some level of pressures.

You see particularly businesses continuing to move their production to service bureau, and that has a short-term dynamic on the revenue. That said, I would say that longer term, we think we're uniquely positioned to provide value to those service bureaus, so while it's disruptive in the short term, it is something I think in the long term that will advantage us.

The second point I would make is that we've been shy on printer sales this year. Printers are something that affect the top line in a fairly material way, but obviously, as you know, don't come with a lot of profit. And as we focus ourselves on driving revenue with profit, we have walked away from some of those opportunities that would make economic sense for us.

So as we've always said, it's going to be a lumpy business. It was not great from a top-line perspective in the third quarter. Pretty darn good from a profit perspective, and we like our hand going forward.

Michael Monahan - *Pitney Bowes Inc. - EVP, COO & CFO*

It's Mike. I just want to add that at Analyst Day, we did speak to the fact that we introduced three new products in the Production Mail space that directly addresses what Marc outlined. So our epic inserter platform is really geared towards that third-party service provider, quick changeovers, and those types of things.

We have a parcel sorter solution as well that is really aimed at a new market opportunity, and we introduced new AcceleJet, large format Inkjet printer for the mid market versus the high-end market that we have served with our prior products. So we're really well positioned from a product portfolio standpoint, even in those market dynamics that Marc outlined.

Kartik Mehta - *Northcoast Research - Analyst*

Thanks, Mike. And Mike, I wanted to get your thoughts on your debt strategy. I know recently you made an announcement you were calling some notes that are going to be due in 2022, and I'm wondering if this is part of an overall strategy of doing a larger debt placement, or if it's another strategy that you're going to employ?

Michael Monahan - *Pitney Bowes Inc. - EVP, COO & CFO*

Yes, we really plan to take those out with commercial paper, so not reduce our overall debt in the near term but really replace those. We can call them with no premium, and so it's an opportunity to swap those out, and as you know, we have about $370 million coming due early next year. So it is part of our overall view of how we look at the portfolio maturities and potential issuances of debt.

Kartik Mehta - *Northcoast Research - Analyst*

And then finally, just Marc, I know you bought back 100 million shares this quarter. You have another 100-million share repurchase authorization. Is it the intention that you'd like to finish that also in 2015 and then start with something else in 2016?

Marc Lautenbach - *Pitney Bowes Inc. - President & CEO*

Kartik, we continually look at the market conditions and consult with the Board, and we'll move forward with our authorization in a way that we think optimizes our shareholder value, so we'll report more as we have more to say.

Kartik Mehta - *Northcoast Research - Analyst*

Thank you very much. Appreciate it.

Charles McBride - *Pitney Bowes Inc. - VP of IR*

Thank you.

Operator

We now have a question from the line of Ananda Baruah with Brean Capital.

Ananda Baruah - *Brean Capital, LLC - Analyst*

Hi, good morning, guys. Thanks for taking the question. Hey, congrats on some pretty solid metrics in some of the core areas of the Company.

Just to start off, just a quick clarification. Marc, did you actually say that North American Mailing equipment was up on a year-over-year basis in the September quarter?

Marc Lautenbach - *Pitney Bowes Inc. - President & CEO*

I said it, as did Mike.

Michael Monahan - *Pitney Bowes Inc. - EVP, COO & CFO*

Yes so equipment sales grew 2% in the quarter in North American Mailing.

Ananda Baruah - *Brean Capital, LLC - Analyst*

Got it. And it sounded like you thought that may have some near-term stickiness to it. I just wanted to make sure I didn't mishear that.

Marc Lautenbach - *Pitney Bowes Inc. - President & CEO*

I believe that our Mailing business in general will continue to improve in the fourth quarter. So at Analyst Day and the remarks at the end of the second quarter, we pointed to a second-half continued improvement with third quarter being better than the first half and fourth quarter being better than third quarter year to date.

So listen, the go-to-market, particularly in North America and mostly in Europe, has stabilized, but stabilized is different than driving the kind of productivity through it that we ultimately can. So we like the foundation that we've built and how we really drive even better productivity.

Ananda Baruah - *Brean Capital, LLC - Analyst*

And could you just walk us through how we should think about the supplies and the rentals dynamics in coming quarters given the ongoing improvement in the US Mailing business? I don't want to read too much into this, but supplies looked like it improved pretty significantly in the September quarter. On a year-over-year basis, the rentals have been more consistent. Should we expect improvement there as well, and what should we think -- expect from supplies in coming quarters?

Michael Monahan - *Pitney Bowes Inc. - EVP, COO & CFO*

Let me start with supplies. There's really two key drivers to supplies. It's the traditional ink products in the Mailing business, with very solid performance there. To Marc's comment on go-to-market, obviously a component of go-to-market is our sales activities around supplies, and we've put a real focus on that and have had good performance there.

The other thing benefiting supplies is in our Production Mail business, even though we didn't have any placements of printers in the quarter, as we built an install base of printers out there, that drive supplies revenue as well. So that was a positive, and as we achieve future placements, that helps build a incremental recurring revenue stream.

With respect to rentals, I would say you are seeing stabilization, certainly, in the North American Mailing business. On the International side, that's been impacted is somewhat by the go-to-market, particularly in France, which is the other key market where we see rentals. So to Marc's earlier comments as we see stabilization in those markets, and particularly in France, on a go-forward basis, that should help over time with rentals. And as you know, rentals and the other recurring revenue streams tend not to move as dramatically quarter to quarter because of an installed base than say the equipment sales line might.

Ananda Baruah - *Brean Capital, LLC - Analyst*

Correct. And then just on the -- given the ongoing improvement in the US Mailing business and the subsequent stabilization improvement in supplies and rentals, collectively, how should we think about the impact of the free cash flow dynamics inside of -- you're reaffirming the guidance, but how should we think about the mechanics working going forward?

Michael Monahan - *Pitney Bowes Inc. - EVP, COO & CFO*

Yes, as I outlined at Analyst Day, I think there's a convergence here on an aggregate basis for the Company of earnings growth driving free cash flow growth. Stabilization implies you're not going to have as much volatility around the finance receivables.

In addition to that, we have seen CapEx -- you saw that come down in the quarter relative to prior year in part because the major part of capital investment for the ERP program is behind us. So the things that would -- or have been of free cash flow outside of earnings are beginning to moderate or revert back to really cash flow over the long term being more of an earnings driven number.

Ananda Baruah - *Brean Capital, LLC - Analyst*

Got it. Okay. Thanks a lot.

Charles McBride - *Pitney Bowes Inc. - VP of IR*

Thank you.

Operator

(Operator Instructions)

I would now like to open the line of Glenn Mattson with Ladenburg Thalmann.

Glenn Mattson - *Ladenburg Thalmann - Analyst*

Hi, good morning. Are you going to break out what Borderfree was in the quarter so we can get a better read on what the legacy Ecommerce business did year over year?

Michael Monahan - *Pitney Bowes Inc. - EVP, COO & CFO*

We really are managing as a single business now. What I would tell you is that we continued to see growth in the UK business across what was the traditional Ecommerce business and the Borderfree platform. Offsetting that was, as I outlined in the comments, some pressure on US volumes associated with the stronger US dollar.

Glenn Mattson - *Ladenburg Thalmann - Analyst*

Okay, that helps a little. And then I think you mentioned that in the SMB transition in France that you've made the personnel transitions that you need to make but there were still is some things that you had to get done. Can you explain what kind of things you're talking about there?

Marc Lautenbach - *Pitney Bowes Inc. - President & CEO*

Yes, let me unpack that a little bit. I was there last week. So right now, if you look at where we are in France, we have all of the new folks hired. We still have some of the existing staff that is helping with transition, so in the third quarter, you saw, in a way, a duplicate of expense structure in France. That's the first thing that I would say.

The second thing I would say is the new channel is coming up to speed as we would have expected. And obviously, with some of the important labor laws in France that we're very mindful of, it took awhile to get where we are today. But at this point going forward, we expect to see the kind of productivity improvements that we have in the rest of the world.

Glenn Mattson - *Ladenburg Thalmann - Analyst*

Okay, great. And last thing was the year-over-year tough comp again in Software. I think that's the second quarter in a row you mentioned you had a large transaction that you were comping against. Is there more of that to come, or is that the last tough comp?

Marc Lautenbach - *Pitney Bowes Inc. - President & CEO*

Good question. So in the second quarter, we did point to a difficult compare, and we said we were going to have a difficult compare again in the third quarter. I don't have that issue in the fourth quarter.

Glenn Mattson - *Ladenburg Thalmann - Analyst*

Great, thanks.

Charles McBride - *Pitney Bowes Inc. - VP of IR*

Thank you.

Marc Lautenbach - *Pitney Bowes Inc. - President & CEO*

Just let me elaborate on that point because I did make a remark I wanted to talk about. I said Software executed reasonably well in the quarter, and if you look at their performance, they had a really good performance in what I'd say are small- and medium-sized transactions. And that's important because that's a key indicator of how that channel is progressing, how the new go-to-market is progressing.

So at the end of the day, revenue is revenue, but if you can get it from a broader array of the channel, then that's why I think the execution (technical difficulty) and overall numbers are not consistent with the kind of long term performance that we thought/ But that said, we're still a lot better than we were two years ago. I appreciate the question, Glenn, thank you.

Operator

We have a question from Allen Klee with Sidoti.

Allen Klee - *Sidoti & Company - Analyst*

Hi, good morning. Going back to SMB International, how do we think about the margin opportunity long term? Is there any reason structurally that this is going to be different than North America in your mind?

Michael Monahan - *Pitney Bowes Inc. - EVP, COO & CFO*

Yes, I would say Allen, there is significant opportunity from a margin standpoint. As Marc noted, in the short term, we even have some duplicative costs around the market, like France, as we transition people out. But certainly, there will be benefits associated with our ERP implementation as well.

I would say it's difficult to get the International business to the level of the North American business just by the nature of two things really. One, in the North American business, we have the rental of postage meters, which creates an additional recurring revenue stream that's not as predominant in Europe. We tend to have it in France, but not in most of the other markets. That's number one.

Number two is just some infra structure redundancy because you have to maintain some level of local country product and sales and service infrastructure. But we do see the opportunity within our ERP implementation and really managing this business more as a global platform than a regional platform to substantially improve the margin profile in that business.

Marc Lautenbach - *Pitney Bowes Inc. - President & CEO*

Two additional points. If you look at the third quarter, mix was an issue in the business in Europe, so the margins are less than what we would have expected longer term. And then second, to Mike's point, Europe is a more fragmented market. That said, I think that it's worth noting we've taken out a couple layers of management above countries, so we're trying to operate that in a much more efficient and effective way.

Allen Klee - *Sidoti & Company - Analyst*

Great, thank you. And then in the Software segment, is there a way to think about a long-term opportunity of a growth rate there?

Marc Lautenbach - *Pitney Bowes Inc. - President & CEO*

Yes, we plan to in Analyst Day, and what we've talked about the last couple of years is we think those end-user market opportunities should be growing north of 10%. If you look at where we are versus the last couple of years, we've (inaudible) that strategy. While it's been, I would say, bumpy quarter to quarter through the compound growth rates over the last couple of years, we've been in that zip code.

Allen Klee - *Sidoti & Company - Analyst*

Okay, great. And then finally, any long-term views on the opportunity for margins within Ecommerce?

Michael Monahan - *Pitney Bowes Inc. - EVP, COO & CFO*

Yes, I think if you look at what we've talked about in terms of the end markets, that in that DCS space, broadly, there's opportunities that probably range from 10% to 20%, depending upon segments. We would see Ecommerce probably more in that 10% to 15% range because of the inclusion of the logistics costs associated with that. But clearly, the technology components have upside margin potential to that So in the short-term, obviously, we have the integration of the two businesses. The synergies that we've identified that we can go forward would go a long way to moving us towards that range.

Allen Klee - *Sidoti & Company - Analyst*

Thank you.

Marc Lautenbach - *Pitney Bowes Inc. - President & CEO*

Thank you.

Operator

We have a question from the line of Shannon Cross with Cross Research.

Shannon Cross - *Cross Research - Analyst*

Thank you very much for taking my question. Can you talk a bit more about the integration of Borderfree? Just give us some more details regarding what you've done, how the two businesses are working together, salespeople, if they're integrated trained on products, just any color you can give on how that's progressing. Thank you.

Marc Lautenbach - *Pitney Bowes Inc. - President & CEO*

I would say the organization at this point is well integrated, so people are in the jobs that they're going to be in on a going-forward basis. The strategies have been integrated. We have a plan to integrate the brands and the products. And what will take a little bit longer is to integrate the two platforms, so that's something, obviously, is a more heavy lift, and given how important the fourth quarter is to our clients, we're not likely to make any changes to the platform until next year.

If you look at it from a financial perspective, we talked about $25 million to $30 million of synergies. We're on track with that. And as I said at Analyst Day and before, those $25 million to $30 million were on the cost side. As we get deeper into it, we're starting to see some opportunities on the revenue side as well.

So I would say from a financial perspective, the integration is on track. We like what we've seen so far. I would say that the Team is -- they've put together a remarkably talented Team, and we really have great skills from across the industry. I would say qualitatively, in terms of their punch list, they likewise are integrating at or ahead of plan.

Michael Monahan - *Pitney Bowes Inc. - EVP, COO & CFO*

And they are running a single sales organization today, so that's already moving in that direction.

Shannon Cross - *Cross Research - Analyst*

Okay, great and then in terms of your go-to-market productivity, you mentioned collapsing some layers of management. And I'm just curious, have you made changes to your sales comp structure, any more specifics in how you can improve the productivity on the sales side, perhaps the stuff you've learned from the North American Mailing?

Marc Lautenbach - *Pitney Bowes Inc. - President & CEO*

Yes, at a very simple level, next year, the channel will be twice as experienced as it is this year. And that sounds trite, but it makes a difference. So you think about the new channels that we've put inside in inside sales, another year is meaningful in terms of their ability to drive productivity.

The second thing I would say is that we have only scratched the is surface of what we can do with the web. The web is something that we've spent the last couple of years building our capabilities, relaunched the web, and we've got a lot that we can do there, not only in term of driving more efficiency in our sales organization, but more efficiency in our service organization, more efficiency in our co-operations And we have a I would say very detailed piece of work that Mike is leading on our be half.

In terms of changes to the comp, not really. We continue to fine tune that, but I think our primary levers of productivity are as I described The maturation of the inside sales channel and the coming online of the web channel. So there's still a lot we can do here.

And we always talk about impact in our ERP project in parallel with our go-to-market changes. There's connections between those two. Our systems work will allow us to do a bunch of things in terms of interacting with our clients. That's just first and foremost a better client experience, but also a heck of a lot more efficient.

Shannon Cross - *Cross Research - Analyst*

Okay, thanks. And just my last question with regard in use of cash, which I know came up at the Analyst Day, and you do have your incremental 100-million share repurchase authorization. You went to the first group that you just did fairly quickly. I'm just curious, given the cash flow you saw this quarter and the trajectory and reiterating how you're thinking about pace of deployment of cash back to shareholders and how you're -- if you've had any further thoughts from the Analyst Day. Thank you.

Marc Lautenbach - *Pitney Bowes Inc. - President & CEO*

No, we've not. We were pretty purposeful about what we said at Analyst Day, and I'll repeat it. First of all, if you start with available free cash flow, as you get into 2016 through 2018, we see a pretty big opportunity to drive real cash flow. That will become very congruent with earnings.

The second thing we said is that our view of capital allocation is we'll be balanced between share repurchases and acquisitions. And the third thing we said is we'll have a bias towards share repurchases in the short term. And I think all those comments still stand. I'm not prepared to say a lot more than that, however.

Shannon Cross - *Cross Research - Analyst*

Thank you.

Operator

Allen Klee with Sidoti, your line is open.

Allen Klee - *Sidoti & Company - Analyst*

Yes, hi. Just one follow-up. In the prepared remarks, you mentioned that the shipping solutions underperformed your expectations, and I was wondering if you could just provide any color on that.

Marc Lautenbach - *Pitney Bowes Inc. - President & CEO*

Yes, so I would say that's a business that over the last couple of years has performed quite well. As you look at the pipeline that they had in the third quarter, they had an opportunity to do much better than they did, and I would say our sales execution was not what I would have expected. So as I remarked, there's positives and negatives about the quarter.

Software, I thought the optics were less good than the actual execution. In shipping, I just didn't like how we executed. So I think we'll be back on the horse in the fourth quarter, but they certainly didn't perform the way I wanted to in the third quarter.

Allen Klee - *Sidoti & Company - Analyst*

Thank you.

Operator

George Tong with Piper Jaffray.

George Tong - *Piper Jaffray - Analyst*

Thanks, good morning. Can you discuss how much of additional runway you have in scaling your UK outbound cross-border Ecommerce service, and if you see any near-term opportunity for providing outbound services in additional countries?

Marc Lautenbach - *Pitney Bowes Inc. - President & CEO*

I would say the answer to the first question is what? And the answer to the second question is we continue to look at other outbound markets. So not to be flip, George, if you look at where we are in the UK, we are very early, so I think there's a lot that can be done there in terms of driving that even further.

There's opportunities in terms of more listings. There are opportunities in terms better conversion rates. So we're early innings there. We're going to continue to do better, and we are focused with our partners to do that.

As it relates to other countries, that's clearly part of the plan. Right now I'd say that we'll go wherever we can find the next anchor client that would really provide the foundation for our business. As you look at the markets that you'd likely find that, I'd say Germany, India, China, and Japan are the ones that we're pushing the hardest on, but we have to do it in a way that makes economic sense.

George Tong - *Piper Jaffray - Analyst*

Great. That's helpful. And can you discuss the timeline for remaining steps to transition your sales organization in France to achieve the productivity levels you're targeting?

Marc Lautenbach - *Pitney Bowes Inc. - President & CEO*

At this point, the biggest thing that will drive productivity, or two biggest things, are one is the removal of the duplicative expense. So that by itself has a positive benefit. And the second is as that channel becomes more experienced, so there's nothing structural at this point that's in the way, so now it's just a matter of time.

Michael Monahan - *Pitney Bowes Inc. - EVP, COO & CFO*

We have all of the people in the seats, and that's really what was transpiring over the third quarter. Now it's moving up the productivity curve.

George Tong - *Piper Jaffray - Analyst*

Got it. That's helpful. And then lastly, can you talk about internal initiatives you have that can improve licensing and services sales in your Software business to help drive revenue growth to high single digits?

Marc Lautenbach - *Pitney Bowes Inc. - President & CEO*

Yes, so again, I think if you look at that business over the last couple of years, they've done that high single digits and actually low double digit performance, so it's not even quarter to quarter. Software businesses are never quarter to quarter, particularly ones starting with the level of scale that we have.

The next move for them is to think where we started. We went from general (technical difficulty) to product specialists. The next turn of the crank is to go from product specialist to solution sales.

So let me give you an example of what that means. So we have our customer information management businesses. That's a line of business that's a product specialty, if you will. As they mature their channel, they will move from product specialists that know those products inside and out to people that know about money laundering and know your customer and other types of application areas that become important to the client.

So I can get the predicate of your question looking at the third-quarter results. I would say that they've hit the ball fairly consistent with what we think our long-term expectations are over the last couple of years. And they got more opportunities for productivity.

The other thing that will help, and we haven't talked about it a lot, is we've not done as well this year on our services business in Software as we had planned. As you move more into the solutions aspect, it will drag your services business along with it.

George Tong - *Piper Jaffray - Analyst*

Great, thank you.

Operator

There are no additional questions at this time, so I will turn the call over to Mr. Lautenbach for any additional remarks.

Marc Lautenbach - *Pitney Bowes Inc. - President & CEO*

Thanks. So let me recap. As I mentioned, from a quarterly perspective, there were some positive and negatives. That's not to be unexpected. That's generally the way. As we pointed to at Analyst Day, we expected the third quarter to be better than the first half, and the fourth quarter to be further improvement from there, and I think that's the way it's going to turn out.

In terms of our strategic road map, and I think this is the headline of the third quarter, we made little progress over the last 90 days. And I would just recap, too, because I think their economic consequence is so substantial, the fact that we got Canada out the door from a systems perspective is significant. As we've talked about, that's the next important step to realizing that $125 million of benefit. I would say we've seen productivity improvements beyond what I would have expected where we are in deployment already.

And the second really important strategic item that we're able to make progress on and the third quarter, to Shannon's question, was the integration of Borderfree. We've talked about $25 million to $30 million of synergies over the next 18 months. Collectively, those two items represent $150 million benefit.

So as I said, you'll get fluctuations and a little bit noise quarter to quarter, but our focus and our perspective is squarely on the long-term creation of shareholder value. That will conclude our remarks for today. We'll talk to you in 90 days.

Operator

Ladies and gentlemen, this conference will be available for replay after 10 a.m. Eastern Standard Time today through midnight, November 29, 2015. You may access the AT&T teleconference replay system at any time by dialing 1-800-475-6701 and entering the access code 369639. International participants dial 320-365-3844. Those numbers again are 1-800-475-6701 and 320-365-3844, access code 369639.

That does conclude our conference for today. Thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect.
